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FINANCIAL INSTITUTIONS SAFETY AND CONSUMER
CHOICE ACT OF 1991

SEPTEMBER 26, 1991.—Ordered to be printed

Mr. ROSTENKOWSKI, from the Committee on Ways and Means,
submitted the following

REPORT

[To accompany H.R. 6]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 6) to reform the deposit insurance system to enforce the congressionally established limits on the amounts of deposit insurance, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments (stated in terms of the page and line numbers of the bill as reported by the Committee on Banking, Finance and Urban Affairs) are as follows:

Page 13, after line 19, insert the following (and redesignate the subsequent paragraphs accordingly):

“(2) LIMITATIONS ON BORROWING.—

“(A) APPLICABILITY OF PUBLIC DEBT LIMIT.—For purposes of the public debt limit established in section 3101(b) of title 31, United States Code, any obligation issued, or amount borrowed, by the Corporation under paragraph (1) shall be considered to be an obligation to which such limit applies.

“(B) APPLICABILITY OF FDIC BORROWING LIMIT.—For purposes of the dollar amount limitation established in section 14(a) of the Federal Deposit Insurance Act (12 U.S.C. 1824(a)), any obligation issued, or amount borrowed, by the Corporation under paragraph (1) shall be considered to be an amount borrowed from the Treasury under such section.

"(C) INTEREST RATE LIMIT.—The rate of interest payable in connection with any obligation issued, or amount borrowed, by the Corporation under paragraph (1) shall not exceed an amount determined by the Secretary of the Treasury, taking into consideration current market yields on outstanding marketable obligations of the United States of comparable maturities.

"(D) OBLIGATIONS TO BE HELD ONLY BY BIF MEMBERS.—The terms of any obligation issued by the Corporation under paragraph (1) shall provide that the obligation will be valid only if held by a Bank Insurance Fund Member.

Page 13, beginning on line 24, strike "paragraph (1)" and insert "paragraphs (1) and (2)".

Page 391, strike lines 9 and 10, (and redesignate the subsequent subparagraphs accordingly).

Page 416, after line 11, insert the following new subsection:

(c) ACT NOT TO AFFECT APPLICATION OF INTERNAL REVENUE CODE.—Subsections (a) and (b) shall not apply for purposes of the Internal Revenue Code of 1986, and any reference in such Code to a bank holding company shall not include any bank holding company—

(1) which (directly or indirectly) engages in any activity or holds shares in any company if the engaging in such activity or holding of such shares would not be permitted under the Bank Holding Company Act of 1956 as in effect on the day before the date of the enactment of this Act, or

(2) any shares in which are held by any person if the holding of such shares by such person would not be permitted under such Act as so in effect.

I. LEGISLATIVE BACKGROUND

H.R. 6, The Financial Institutions Safety and Consumer Choice Act of 1991 (generally referred to as the Bank Reform Bill), was reported to the House of Representatives on July 23, 1991, with amendments, by the House Committee on Banking, Finance and Urban Affairs (H. Rept. 102-157, Part 1). The bill was sequentially referred to the Committee on Ways and Means for a period ending September 27, 1991, and also was sequentially referred to the Committee on Energy and Commerce, the Committee on the Judiciary and the Committee on Agriculture (also through September 27, 1991).

The Committee on Ways and Means ordered H.R. 6 favorably reported, with amendments, on September 25, 1991.

II. EXPLANATION OF COMMITTEE AMENDMENTS

The Committee on Ways and Means has received a sequential referral of this legislation only for consideration of such provisions of the bill that fall within the jurisdiction of the committee. As a technical matter, however, the committee has ordered reported to

the full House of Representatives the entire bill, as amended. As a substantive matter, the committee does not favorably or unfavorably comment upon the many provisions of the legislation not within the jurisdiction of the committee. Therefore, the favorable reporting of H.R. 6 as amended is not intended to signify agreement with each specific provision of the bill.

A. PUBLIC DEBT PROVISIONS

Present Law

The Federal Deposit Insurance Corporation (FDIC) has the ability to borrow amounts from the Federal Treasury for depository insurance purposes in amounts not exceeding \$5 billion. In addition, the FDIC may issue obligations for depository insurance purposes, including borrowing from the Federal Treasury through the Federal Financing Bank, but no obligation may be issued or liability incurred under any guarantee or similar obligation if the net worth of the Bank Insurance Fund or the Savings Association Insurance Fund would be less than 10 percent of its assets.

Description of Bank Reform Bill (H.R. 6) as reported by the Committee on Banking, Finance and Urban Affairs

Under H.R. 6 (bill secs. 101-104), as reported by the Committee on Banking, Finance and Urban Affairs, the FDIC would be authorized to borrow funds under three methods. First, the FDIC could borrow amounts up to \$30 billion from the Federal Treasury. In addition, the FDIC would be authorized to incur further obligations, including borrowing from the Treasury Department through the Federal Financing Bank, but the total amount of outstanding obligations of the Bank Insurance Fund or the Savings Association Insurance Fund could not exceed the sum of (1) the amount of cash or cash equivalents held by the respective depository insurance fund, (2) 90 percent of the FDIC's estimate of the fair market value of assets held in the respective depository insurance fund, and (3) the \$30 billion authorized to be borrowed from the Treasury. Further, H.R. 6 would allow the FDIC to borrow from banks which are members of the Bank Insurance Fund, at rates of interest determined by the FDIC. Banks could make such investments only from the bank's capital or retained earnings, and such obligations held by a bank would count as assets for purposes of determining compliance with capital standards.

Reasons for Change

The committee has jurisdiction over the bonded debt of the United States. Borrowing from the Treasury Department and the Federal Financing Bank is anticipated to be significant under the legislation. The Congressional Budget Office (CBO) and the Treasury Department have provided the committee with estimates of the total budget outlays of the Bank Insurance Fund. The CBO estimates that net outlays of the Bank Insurance Fund would total approximately \$16 billion over the period 1991-1996, requiring \$36 billion in borrowing from the Treasury Department or the Federal Financing Bank. (See Exhibit 1.) The CBO further estimates that

such borrowing would be repaid by fiscal year 1998. The Treasury Department estimates outlays over the same period of approximately \$40 billion, and that the Bank Insurance Fund would begin to borrow from the Treasury Department in 1992. The Treasury Department further estimates that repayment of that borrowing would begin in that same year and would be amortized over a 15-year period. (See Exhibit 2.)

The committee is concerned about the potential impact of this borrowing on the public debt limit. The Omnibus Budget Reconciliation Act of 1990 increased the statutory limit on the public debt to \$4.145 trillion, an amount anticipated at that time to be sufficient to cover Federal borrowing costs until well into calendar year 1993. In a letter dated September 16, 1991 (Exhibit 3), Chairman Rostenkowski, on behalf of the committee, asked the Treasury Department whether the additional borrowing authority it requested for the Bank Insurance Fund and its recent request for additional financing for the Resolution Trust Corporation, along with the Treasury Department's downward revisions in estimates of Federal revenues and other economic factors, would affect the time that the current debt limit would be reached.

The Treasury Department has responded, in a letter dated September 26, 1991 (Exhibit 4), that funding arrangements for the Bank Insurance Fund contained in this legislation have not been finalized. However, the Treasury Department indicated that because of increased outlays, including amounts for the Bank Insurance Fund and the Resolution Trust Corporation along with other budget categories, as well as decreased receipts primarily due to the recession, and other factors, their estimated date for action on a debt limit increase has moved forward to January, 1993.

With respect to the provisions of H.R. 6 specifically allowing the FDIC to borrow from banks that are members of the Bank Insurance Fund, the committee believes that for proper management of the Federal debt, such borrowing should count as a public debt transaction, that the costs of such borrowing should be no greater than the costs of comparable Treasury Department securities, and that borrowings under the provision should count against the \$30 billion in Treasury Department borrowing authorized by the bill.

Explanation of Provision

Under the committee amendment, the provision allowing the FDIC to borrow amounts from banks that are members of the Bank Insurance Fund is modified so that (1) the amount of such borrowing would count against the \$30 billion limit on borrowing from the Treasury, (2) the interest rates that the FDIC could pay on the obligations would be no greater than current market yields on obligations of the United States of comparable maturities, (3) the issuance of such obligations would be a public debt transaction, and therefore subject to the public debt limit, and (4) banks holding such obligations could only transfer such obligations to other banks that are members of the Bank Insurance Fund.

B. TAX PROVISIONS

Present Law of Relevant Federal Banking Rules

Under the Bank Holding Company Act of 1956, a bank holding company is any company that directly or indirectly controls a bank. In addition, the Bank Holding Company Act sets forth limits on the nonbanking activities that can be conducted by a holding company or its nonbanking subsidiaries. Accordingly, the principal permissible activity of a bank holding company is controlling and managing its subsidiary banks. As a consequence of these rules, a bank generally can be owned only directly by individuals or by a holding company which is owned by individuals and whose principal holdings are banks (or other bank holding companies).

Description of Bank Reform Bill (H.R. 6) as reported by the Committee on Banking, Finance and Urban Affairs

Modification to rules for bank holding companies (bill secs. 409 and 691).—H.R. 6, as reported by the Committee of Banking, Finance and Urban Affairs, makes two basic structural changes as to how banks can be owned and operated. First, the bill would allow banks to be indirectly held by a commercial company (e.g., a manufacturing corporation which itself would be known as a “diversified holding company”) through ownership of a new type of bank holding company, to be known as a “financial services holding company.” Second, the bill would expand the permissible nonbanking activities in which the newly-named financial services holding company may engage through its subsidiaries to include certain securities activities, including the activities of a broker/dealer, investment banker, and financial adviser to mutual funds.

The Bank Reform Bill redesignates the Bank Holding Company Act of 1956 as the “Diversified and Financial Services Holding Company Act of 1991” and provides that any reference in Federal law to the Bank Holding Company Act shall be deemed a reference to the newly redesignated act. The bill also provides that “any reference in any Federal law to a bank holding company shall be deemed to be a reference to a financial services holding company.”

Study of tax treatment of various types of savings associations (bill sec. 631(c)(2)(D)).—H.R. 6 establishes a new commission, to be known as the Commission on the Thrift Industry. One of its functions is to study and make reports on specified topics to the President, the House Committee on Banking, Finance and Urban Affairs, and the Senate Commission on Banking, Housing and Urban Affairs. One of the topics for which studies is required is the “tax treatment of the various types of savings associations.”

Present Law of Relevant Federal Tax Rules

The International Revenue Code contains three provisions, described below, which apply to bank holdings companies and which cross refer to the Bank Holding Company Act.

Dividends received deduction (Code sec. 246A)

Corporations generally may deduct an amount equal to 70 percent of dividends received from other domestic corporations (100 percent in the case of certain dividends from affiliated corporations) if they satisfy certain holding period requirements. The dividends received deduction is reduced, however, if portfolio stock is debt financed. Stock is considered portfolio stock unless (1) the taxpayer owns at least 50 percent of the vote and value of the stock of the corporation, or (2) the taxpayer owns at least 20 percent of the vote and value of the corporate stock, and at least 50 percent of the vote and value is owned by five or fewer corporate stockholders.

A special rule applies to bank or bank holding company stock. If the taxpayer owns at least 80 percent of the value of the stock of any bank or bank holding company, then for purposes of determining whether the taxpayer owns stock possessing at least 50 percent of the vote (which is necessary to satisfy the test described in (1) above), the taxpayer is treated as owning any stock of such bank or bank holding company which the taxpayer has an option to acquire. For purposes of this special rule, the term "bank" has the same meaning as under Code section 581, and the term "bank holding company" means a bank holding company within the meaning of section 2(a) of the Bank Holding Company Act.

Redemption of stock in related corporations (Code sec. 304)

If a stockholder in one corporation transfers stock of that corporation to another corporation controlled by the same person or group of persons, and receives property including securities of the transferee, the transaction can be characterized under Code section 304 as a dividend rather than as a sale of stock.

An exception to the rule requiring dividend treatment applies to certain transactions in which stock of a bank is transferred to a bank holding company within the meaning of section 2(a) of the Bank Holding Company Act that is newly formed in connection with an acquisition of control of the bank. In such a case, certain minority stockholders of the bank holding company may transfer their bank stock to the bank holding company and receive securities of the bank holding company without dividend treatment. Rather, they generally are taxed on gain, if any, only to the extent of the securities received.

Treatment of bank holding companies and their subsidiaries for purposes of the foreign tax credit limitation (Code sec. 864)

Foreign tax credit limitation—in general

The United States taxes U.S. persons on their worldwide income, including their income from sources outside of the United States. The foreign tax credit generally allows U.S. taxpayers to reduce the U.S. tax on their foreign income by the foreign income taxes they pay on that income. The foreign tax credit for any year may not exceed the following amount, known as the foreign tax credit limitation: (a) pre-credit U.S. tax, multiplied by the quotient of (b) foreign source taxable income divided by (c) entire taxable income. Taxable income from foreign sources is computed by (1) determining the items of gross income that are from foreign sources, and

then (2) subtracting from that amount of gross income that portion of the taxpayer's deductions that are allocable and apportionable to foreign source gross income.

Allocation and apportionment of interest deductions to foreign source gross income

With respect to the allocation and apportionment of deductions for interest expense, generally money is treated as fungible and interest expense is viewed as attributable to all business activities and property of a taxpayer, regardless of any specific purpose for incurring an obligation on which interest is paid. For interest allocation purposes, all members of an affiliated group of corporations generally are treated as a single corporation (the so-called "one-taxpayer rule"). For this purpose, an "affiliated group" generally is defined by reference to the rules for determining whether corporations are eligible to file consolidated returns.

The one taxpayer rule and financial corporation.—The statutory definition of affiliation for purposes of group-wide allocation of interest expressly provides for an exception to the general rule in the case of certain financial institutions. Under this exception, the members of the affiliated group may be divided into two subgroups for interest allocation purposes, each of which is treated as a separate single corporation with respect to the interest expenses and assets of the members within that subgroup. These two subgroups are termed by the regulations the "financial group" and the "non-financial group." The financial group includes any member of the larger affiliated group that is, in the words of the regulations, a "financial corporation": a financial institution (described in Code sec. 581 or 591), the business of which is predominantly with persons other than related persons or their customers, and which is required by State or Federal law to be operated separately from any other entity which is not a financial institution (Code sec. 864(e)(5)(B) and (C)).

Bank holding companies and their subsidiaries.—To the extent provided in regulations, the financial group also includes any bank holding company within the meaning of section 2(a) of the Bank Holding Company Act of 1956 (the "1956 Act"), and any subsidiary of a financial institution described in section 581 or 591 or of any bank holding company if that subsidiary is predominantly engaged (directly or indirectly) in the active conduct of a banking, financing, or similar business (Code sec. 864(e)(5)(D)). Current regulations provide for prorating the interest expense of any affiliated group member that is a bank holding company under the 1956 Act between the financial group and the nonfinancial group on the basis of the assets in the financial and nonfinancial groups (Treas. Reg. sec. 1.861-11T(d)(4)(iii)). Further, the regulations provide that any direct or indirect subsidiary of a bank holding company that is predominantly engaged in the active conduct of a banking, financing, or similar business is considered a financial corporation for this purpose (id.).

Reasons for Change

The effect of the Bank Reform Bill as reported by the Committee on Banking, Finance and Urban Affairs would have been to make changes to the Internal Revenue Code on a piecemeal basis. The committee does not believe that approach is proper. Rather, the committee believes that any changes to Federal Tax rules that may be appropriate in light of the substantive changes made by the Bank Reform Bill should be done on a comprehensive basis after the committee has had the opportunity to examine the impact of bank reform legislation. Accordingly, the committee amendment provides that the Bank Reform Bill would not affect the Internal Revenue Code and deletes any study of the tax status of savings associations.

Explanation of Provision

The committee amendment amends H.R. 6, the Bank Reform Bill, to provide that the redesignation of the Bank Holding Company Act and cross references to that Act in Federal law would not apply for purposes of the Internal Revenue Code. In addition, the committee amendment provides that any reference in the Internal Revenue Code to a bank holding company will include only those companies that engage in activities in which a bank holding company could engage prior to enactment of the Bank Reform Bill and that are held by persons who could hold a bank holding company under the Bank Holding Company Act prior to the Bank Reform Bill. Thus, any corporation that was a bank holding company under the Bank Holding Company Act prior to the Bank Reform Act will continue to be a bank holding company (for purposes of Code sections 246A, 304 and 864), so long as that corporation does not change how it is held or change the activities in which it or any of its subsidiaries engage.

In addition, the committee amendment deletes the portion of the bill's required study relating to the tax treatment of savings associations.

III. EFFECT OF THE BILL ON THE BUDGET

In compliance with clause 7 of rule XIII of the Rules of the House of Representatives, the following statement is made about the effect on the budget of this bill, H.R. 6, as amended by the Committee on Ways and Means.

Although no cost estimate has yet been completed on H.R. 6 as reported by the Committee on Banking, Finance and Urban Affairs, the committee amendments are estimated to cause no increase in the deficit and therefore to have no adverse pay-as-you-go consequences. (See also the statement of the Congressional Budget Office in Part IV of this report.)

IV. VOTE OF THE COMMITTEE AND OTHER MATTERS TO BE DISCUSSED UNDER HOUSE RULES

A. VOTE OF THE COMMITTEE

In compliance with clause 2(1)(2)(B) of rule XI of the Rules of the House of Representatives, the following statement is made about the vote of the Committee on Ways and Means on the motion to report the bill, H.R. 6, as amended. The bill, as amended, was ordered favorably reported by voice vote.

B. OTHER MATTERS

In compliance with clause 2(1)(3) and 2(1)(4) of rule XI of the Rules of the House of Representatives, the following statements are made with respect to the Committee on Ways and Means action on H.R. 6, as amended.

Oversight findings

With respect to subdivision (A) of clause 2(1)(3) (relating to oversight findings), the committee advises that it was as a result of the committee's oversight activities with respect to the public debt and income tax-related provisions of H.R. 6 that the committee concluded that it is appropriate to enact the provisions contained in the bill, as amended.

Tax expenditures

With respect to subdivision (B) of clause 2(1)(3), after consultation with the Congressional Budget Office, the committee states that the changes made to existing law by this bill as reported involve no new or increased tax expenditures.

Budget authority

With respect to subdivision (B) of clause 2(1)(3), after consultation with the Congressional Budget Office, the committee states that the changes made by the committee amendments involve no new budget authority.

Congressional Budget Office statement

With respect to subdivision (C) of clause 2(1)(3), the committee advises that the Congressional Budget Office has not completed a full cost estimate of H.R. 6 as reported by the Committee on Banking, Finance, and Urban Affairs, but has submitted the following statement about the Committee on Ways and Means' amendments:

U.S. CONGRESS
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, September 25, 1991.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: As requested by the committee staff, CBO has reviewed proposed amendments to H.R. 6, the Financial Institutions Safety and Consumer Choice Act of 1991, as it was ordered reported by the House Committee on Banking, Finance and Urban

Affairs. Based on this review, and in consultation with the Joint Committee on Taxation, CBO estimates that the proposed amendments would not increase direct spending or decrease receipts, and thus would not result in a deficit increase for pay-as-you-go purposes.

Amendment No. 1. In addition to authorizing the Federal Deposit Insurance Corporation (FDIC) to borrow \$30 billion from the Treasury, H.R. 6 as reported would allow the FDIC to borrow from insured banks to help finance its insurance functions. Under the proposed amendment, any such borrowings would count against the \$30 billion limit on borrowing the Treasury and against the public debt limit; the FDIC could pay interest at a rate no greater than current market yields on Treasury securities of comparable maturities; and the debt obligations could only be transferred to other insured banks. This amendment would not add to Bank Insurance Fund outlays, relative to the bill as reported.

Amendment No. 2. The proposed amendment would remove the direction to the newly established Commission on the Thrift Industry to study the tax treatment of various types of savings associations. This amendment would have no direct spending impact.

Amendment No. 3. Section 691 of the reported bill provides that "any reference in any federal law to a bank holding company shall be deemed to be a reference to a financial services holding company," and that references to the Bank Holding Company Act of 1956 shall be deemed to be references to the Diversified and Financial Services Holding Company Act of 1991. The proposed amendment would provide that these redesignations would not apply for purposes of the Internal Revenue Code and that any reference in that code to a bank holding company will include only those companies that engage in activities in which a bank holding company could engage prior to enactment of this bill. For purposes of pay-as-you-go considerations, the Joint Committee on Taxation estimates that Section 691 as amended would have no revenue consequences with respect to present law.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are: for outlay effects—Mary Maginniss, who may be reached at 226-2860, and for revenue effects—Mark Booth, who may be reached at 226-2689.

Sincerely,

JAMES L. BLUM
(for Robert D. Reischauer, Director).

Oversight by Committee on Government Operations

With respect to subdivision (D) of clause 2(1)(3), the committee advises that no oversight findings or recommendations have been submitted to the committee by the Committee on Government Operations regarding the subject of this bill.

Inflationary impact

In compliance with clause 2(1)(4), the committee states that the enactment of the committee amendment to H.R. 6 are not expected to have an overall inflationary impact on prices and costs in the operation of the national economy.

V. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

The bill (H.R. 6) was referred to this Committee for consideration of such provisions of the amendments recommended by the Committee on Banking, Finance and Urban Affairs as fall within the jurisdiction of this Committee pursuant to clause (1)(v) of rule X of the Rules of the House of Representatives. The changes made to existing law by the amendments recommended by the Committee on Banking, Finance and Urban Affairs are shown in the report filed by that Committee.

For the information of the Members of the House of Representatives, changes made by this Committee to existing law as amended by the Committee on Banking, Finance and Urban Affairs are shown as follows (matter proposed to be omitted is shown in black brackets, new matter is shown in *italic*, and matter in which no change is proposed is shown in roman):

SECTION 14 OF THE FEDERAL DEPOSIT INSURANCE ACT

SEC. 14. BORROWING AUTHORITY.

(a) * * *

* * * * *

(d) BORROWING FOR BIF FROM BIF MEMBERS.—

(1) * * *

(2) LIMITATIONS ON BORROWING.—

(A) *APPLICABILITY OF PUBLIC DEBT LIMIT.*—For purposes of the public debt limit established in section 3101(b) of title 31, United States Code, any obligation issued, or amount borrowed, by the Corporation under paragraph (1) shall be considered to be an obligation to which such limit applies.

(B) *APPLICABILITY OF FDIC BORROWING LIMIT.*—For purposes of the dollar amount limitation established in section 14(a) of the Federal Deposit Insurance Act (12 U.S.C. 1824(a)), any obligation issued, or amount borrowed, by the Corporation under paragraph (1) shall be considered to be an amount borrowed from the Treasury under such section.

(C) *INTEREST RATE LIMIT.*—The rate of interest payable in connection with any obligation issued, or amount borrowed, by the Corporation under paragraph (1) shall not exceed an amount determined by the Secretary of the Treasury, taking into consideration current market yields on outstanding marketable obligations of the United States of comparable maturities.

(D) *OBLIGATIONS TO BE HELD ONLY IF BIF MEMBERS.*—The terms of any obligation issued by the Corporation under paragraph (1) shall provide that the obligation will be valid only if held by a Bank Insurance Fund Member.

[(2)] (3) *LIABILITY OF BIF.*—Any obligation issued or amount borrowed under paragraph (1) shall be a liability of the Bank Insurance Fund.

[(3)] (4) *TERMS AND CONDITIONS.*—Subject to [paragraph (1)] paragraphs (1) and (2), the Corporation shall establish the terms and conditions for obligations issued or amounts bor-

rowed under paragraph (1), including interest rates and terms to maturity.

[(4)(5) INVESTMENT BY BIF MEMBERS.—

(A) **AUTHORITY TO INVEST.**—Subject to subparagraph (B) and notwithstanding any other provision of Federal law or the law of any State, any Bank Insurance Fund member may purchase and hold for investment any obligation issued by the Corporation under paragraph (1) without limitation, other than any limitation the appropriate Federal banking agency may impose specifically with respect to such obligations.

(B) **INVESTMENT ONLY FROM CAPITAL AND RETAINED EARNINGS.**—Any Bank Insurance Fund member may purchase obligations or make loans to the Corporation under paragraph (1) only to the extent the purchase money or the money loaned is derived from the member's capital or retained earnings.

[(5)](6) ACCOUNTING TREATMENT.—In accounting for any investment in an obligation purchased from, or any loan made to, the Corporation for purposes of determining compliance with any capital standard and preparing any report required pursuant to section 7(a), the amount of such investment or loan shall be treated as an asset.

APPENDIX IX

EXHIBIT 1

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, September 24, 1991.

HON. DAN ROSTENKOWSKI,
*Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: As you requested, I am providing you with CBO's most recent estimates of outlays of the Bank Insurance Fund (BIF) for fiscal years 1991-1996. These estimates are our summer baseline projections, which are shown in the attached table.

Under our baseline projections, BIF's net outlays peak at \$18.7 billion in fiscal year 1992 and decline thereafter, totaling about \$16 billion over the 1991-1996 period. Gross losses are projected to be \$42 billion and working capital disbursements \$66 billion over the six years. Receipts from asset dispositions are projected to total about \$61 billion. We estimate that BIF would borrow about \$36 billion from the Treasury or Federal Financing Bank over this period, and that the debt would be repaid by fiscal year 1998. These projections are based on the assumption that BIF premiums are raised from 23 cents per \$100 in 1991 to 27 cents in 1992 and to 30 cents thereafter.

It now appears that our 1991 estimate was too high, and that BIF's 1991 outlays will be in the vicinity of \$7 billion. This will result in higher outlays in future years than we have projected.

I hope this information is helpful to you. If you wish further details, we will be pleased to provide them. The CBO staff contact is Robert Sunshine, who can be reached at 226-2860.

Sincerely,

ROBERT D. REISCHAUER,
Director.

Attachment.

CBO BASELINE PROJECTIONS FOR THE BANK INSURANCE FUND

[By fiscal year, in millions of dollars]

	1991	1992	1993	1994	1995	1996
Gross losses.....	9.0	12.0	7.0	5.0	5.0	4.0
Working capital.....	12.0	18.0	14.0	8.0	8.0	6.0
Liquidations.....	-4.2	-7.3	-11.2	-13.2	-12.9	-11.9
Net interest.....	0.1	1.0	1.8	1.8	1.4	0.9

(13)

CBO BASELINE PROJECTIONS FOR THE BANK INSURANCE FUND—Continued

(By fiscal year, in millions of dollars)

	1991	1992	1993	1994	1995	1996
Other outlays	-3.9	-4.9	-6.6	-7.0	-7.4	-8.2
Total BIF outlays	12.9	18.7	4.9	-5.4	-5.9	-9.2
Cumulative borrowing	10.9	29.9	36.1	30.7	24.8	15.6

EXHIBIT 2

DEPARTMENT OF THE TREASURY,
Washington, DC, September 25, 1991.

Hon. DAN ROSTENKOWSKI,
*Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: Thank you for your letter to Secretary Brady, dated September 23, 1991, regarding the Administration's outlay estimates for the Bank Insurance Fund (BIF).

We have enclosed several tables which summarize the relationship between insurance losses, working capital needs and the Administration's projected outlays. The first table (Table 7 from the 1992 Mid-Session Review) summarizes our outlay estimates for fiscal years 1991 to 1996, and breaks out the working capital component of these estimates separately. The second table is a more detailed backup table to the Mid-Session Review estimates, and includes the individual line items for our estimates of BIF's disbursements and collections. The last table contains a summary of the important items, including our estimate of BIF's outstanding working capital borrowing on an annual basis.

As you know, estimates for any one year may swing widely from these projections, depending upon the timing, size and type of specific closure actions dealing with failed banks. However, the Administration's estimates are intended to capture the magnitude of these outlays and their effect on BIF's net worth between 1991 and 1996.

With regard to BIF's repayment of Treasury borrowing, our estimates assume that BIF will amortize all Treasury borrowing over a 15-year period. Thus, repayment of the borrowing begins as soon as BIF begins to borrow. We estimate that BIF will begin borrowing from Treasury sometime in 1992.

Sincerely,

ROBERT R. GLAUBER
Under Secretary for Finance.

Enclosures.

TABLE 7.—BANK INSURANCE FUND/RESOLUTION TRUST CORPORATION OUTLAYS AND WORKING CAPITAL

[In billions of dollars]

	1991	1992	1993	1994	1995	1996
Bank Insurance Fund:						
Outlays:						
February estimate	15.9	9.7	8.0	6.8	0.9	0.6
Mid-Session estimate	12.1	14.4	24.5	13.8	-6.0	-11.7
Difference	-3.8	4.6	16.5	7.0	-6.9	-12.3
Working capital:						
February estimate	7.0	3.6	1.1	.1	-3.5	-2.3
Mid-Session estimate	7.5	7.2	14.2	7.2	-6.1	-.1
Difference	.4	3.7	13.0	7.1	-2.6	-6.9
Percentage change in outlays due to change in working capital....	-11.4	90.0	79.2	100.9	37.7	55.7
Resolution Trust Corporation:						
Outlays:						
February estimate	84.6	76.1	34.3	-47.6	-45.7	-32.0
Mid-Session estimate	62.2	97.6	19.3	-39.7	-38.9	-26.0
Difference	-22.3	21.6	-14.9	7.9	6.8	6.0
Working capital:						
February estimate	55.4	44.5	12.9	-47.8	-45.9	-32.2
Mid-Session estimate	38.4	55.0	.3	-39.9	-39.1	-26.2
Difference	-17.0	10.5	-12.6	7.9	6.8	6.0
Percentage change in outlays due to change in working capital....	76.3	43.6	84.1	100.1	100.0	100.0

FDIC BANK INSURANCE FUND 1992 MIDSESSION ESTIMATE

[In millions of dollars]

	Fiscal year—							Total
	1990 (actu- al)	1991	1992	1993	1994	1995	1996	1991-96
Disbursements								
Administrative expense.....		311	331	356	381	407	433	2,219
Case resolutions:								
Notes.....	3,453	3,575	5,589	7,577	5,423	2,726	1,904	26,793
Cash.....	9,381	14,094	18,224	25,266	22,529	12,892	8,899	101,903
Loss payments.....		9,425	12,975	16,600	13,406	7,359	5,099	64,864
Interest exp.—Federal Reserve/Treas- ury ¹		0	583	1,328	1,760	1,752	1,734	7,157
Interest exp.—FFB ²		0	1,120	2,020	2,346	1,891	1,296	8,673
Total disbursements.....	12,834	27,405	38,822	53,147	45,844	27,026	19,365	211,609
Collections								
Loss borrowing assessment.....		0	654	1,675	2,447	2,625	2,796	10,198
Base assessment (23 bp).....	2,868	5,394	6,217	6,677	7,152	7,631	8,127	41,198
Asset recoveries ³	2,328	9,158	17,598	20,328	22,408	22,730	20,158	112,380
Interest income.....	1,209	743	0	0	0	0	0	743
Total collections.....	6,405	15,295	24,470	28,681	32,007	32,986	31,081	164,519
Net outlays.....	6,429	12,111	14,352	24,466	13,838	(5,960)	(11,716)	47,091
Fund net worth (Year-end) ⁴	10,525	4,926	(3,212)	(15,163)	(23,457)	(24,610)	(22,250)	

FDIC BANK INSURANCE FUND 1992 MIDSESSION ESTIMATE—Continued

[In millions of dollars]

	Fiscal year—							Total 1991-96
	1990 (actu- al)	1991	1992	1993	1994	1995	1996	
Coverage percent (FNW Insured Dep.).....	.52	.25	-.15	-.67	-.97	-.95	-.80	

¹ Includes only interest payments on loss borrowing (amortized over 15 years).² Interest expense on FFB working capital borrowing.³ Assumes assets retained appreciate (earn income) at the treasury interest rate less 1.5 percentage points.⁴ FNW = Previous FNW + Loss Borrowing Assessment + Base Assessment + interest income - (loss payments + administrative expenses + interest expense).

Other notes: Figures represent 1992 Midsession point estimates. Potential outlay ranges are shown in "Mid-session Review of the Budget", page 7, table 6. Failed bank resolutions peak in 1993. Fund net worth at Dec. 31, 1990 has been reduced for \$2B loss adjustment per GAO audit. This scenario assumes \$2B in additional losses due to banks that fail as a result of higher premiums.

FDIC BANK INSURANCE FUND BUDGET PROJECTIONS AND ASSUMPTIONS

[in millions of dollars]

	Fiscal year—						
	1991	1992	1993	1994	1995	1996	1991-96
Outlays							
1992 budget baseline (2/91)	15,881	9,731	8,002	6,811	941	588	41,954
1992 midsession estimate (7/91)	12,111	14,352	24,466	13,838	(5,960)	(11,716)	47,091
Losses on Failed Assets							
1992 budget baseline (2/91)	11,951	11,951	11,951	11,449	8,836	8,467	64,605
1992 midsession estimate (7/91)	9,425	12,975	16,600	13,406	7,359	5,099	64,864
Working Capital Borrowing (Cumulative)							
1992 budget baseline (2/91) ¹	7,317	17,048	25,050	31,861	32,802	33,390	
1992 midsession estimate (7/91)	7,473	14,736	28,923	36,125	30,031	20,909	
Fund Net Worth							
1992 budget baseline (2/91)	4,406	(2,183)	(9,064)	(15,523)	(19,286)	(22,184)	
1992 midsession estimate (7/91) ²	4,926	(3,212)	(15,163)	(23,457)	(24,610)	(22,250)	

¹ Includes loss borrowing.² Includes \$2 billion adjustment to Fund net worth. This reflects GAO's preliminary estimate of additional losses to the Fund. The actual GAO audit resulted in an adjustment of \$4 billion for calendar 1990.

Notes: These projections are unlikely to be very precise for any one year. They are intended to capture the magnitude of the projected cash flows and net worth changes in 1991-96.

COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Washington, DC, September 23, 1991.

Hon. NICHOLAS F. BRADY,
Secretary of the Treasury,
U.S. Department of the Treasury, Washington, DC.

DEAR MR. SECRETARY: In preparation for the Committee on Ways and Means consideration of issues within its jurisdiction in The Financial Institutions Safety and Consumer Choice Act of 1991, I would like you to provide me with your estimates of outlays of the Bank Insurance Fund (BIF) for fiscal years 1991-1996, along with an explanation of the extent to which such outlays relate to insurance losses, working capital needs, or other outlays.

Further, assuming that the Treasury will borrow on behalf of BIF to cover such outlays, I would like your estimates of when, and if, BIF would repay such amounts to the Federal Government.

The Committee has scheduled a markup of this legislation for Wednesday, September 25, therefore I would appreciate this information prior to the Committee's markup. I realize this imposes tight deadlines on your staff and I am most grateful, in advance, for your prompt attention.

Thank you for your consideration of this request.

Sincerely yours,

DAN ROSTENKOWSKI
Chairman.

EXHIBIT 3

COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Washington, DC, September 16, 1991.

Hon. NICHOLAS F. BRADY,
Secretary, U.S. Department of the Treasury,
Washington, DC.

DEAR MR. SECRETARY: I write to you because of my strong commitment to last year's budget summit agreement, which included an increase in the statutory limit on the public debt, and to vigilant management of our Nation's borrowings. As I am sure you remember, in the budget summit, the Congress and the Administration agreed to increase the debt limit to \$4.145 trillion, an amount that we were assured would be sufficient to cover Federal borrowing costs until well into calendar year 1993. Projections used by the budget summit participants, including both you and me, supported the expectation that the debt limit would not need to be increased during the 102nd Congress.

Since then, several events have occurred that seem to jeopardize that expectation. Projections of the deficit have increased dramatically for fiscal year 1992 and thereafter, in part, because of your Department's downward revisions in Federal revenues and our Nation's ultimate net contribution to the allied Desert Storm Operation. Funds of \$30 billion, in addition to the original \$50 billion, were made available to the Resolution Trust Corporation (RTC) in March of this year to facilitate its cleanup of the savings and loan industry. Again last week, the Administration requested another infusion of loss funds for the RTC—this time an additional \$80 billion, which Deputy Secretary Robson testified will be enough for the RTC to complete its task of closing insolvent thrifts and holding depositors harmless. The Administration's bank reform proposal, currently before the Congress, included a request for \$25 billion in additional borrowing authority for the Bank Insurance Fund to resolve the commercial bank industry's problems.

Mr. Secretary, I am now gravely concerned that the 102nd Congress may be asked by the Administration to take action to increase the debt limit before it adjourns in the autumn of 1992. I write to you today to request that you provide me with your most current expectations about how soon the debt limit must be raised, given recent events, recent requests, and current projections. I hope and trust that responsible resolution of the savings and loan crisis and the commercial bank industry's difficulties will not

hasten the day for necessary action, and I ask for your assurance that your Department's recent requests for an additional \$80 billion in loss funds for the RTC and an additional \$25 billion in borrowing authority for BIF will not have adverse effects on the timing of the next increase in the debt limit.

Thank you in advance for your immediate attention to this important matter.

With warm regards, I am

Sincerely yours,

DAN ROSTENKOWSKI,
Chairman.

EXHIBIT 4

DEPARTMENT OF THE TREASURY,
Washington, DC, September 26, 1991.

Hon. DAN ROSTENKOWSKI,
*Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: I am responding to your letter of September 16, 1991, in which you ask for the Administration's current expectation as to when the present debt limit of \$4.145 trillion must be raised.

Based on the July 1991 Mid-Session Review of the Budget (Mid-Session), the Administration's latest comprehensive overview, the Administration currently estimates that the debt limit will be reached in January 1993. This estimate, of course, is subject to change, based on factors that affect Federal government revenues and expenditures in the intervening period.

At the time of the Summit Agreement in October 1990, on which the debt limit of \$4.145 trillion was based, we estimated the limit would be reached in the late spring of 1993. However, subsequent estimates for the unified budget deficit changed substantially. First, the Mid-Session estimated that outlays (for FY 1991, FY 1992, as well as FY 1993 prorated for the first four months) have increased by approximately \$91 billion—including about \$29 billion for the Bank Insurance Fund (BIF), around \$3 billion for the Resolution Trust Corporation (RTC), and about \$59 billion for other budget categories, including interest on the debt. Second, estimated receipts have decreased by more than \$100 billion, primarily due to the recession. These effects on the unified budget deficit, together with the net impact of changes in trust fund investment and other factors, have move forward the date for action on a debt limit increase to January 1993.

The Mid-Session numbers reflect estimated RTC outlays of \$49 billion in loss funds for the October 1991—January 1993 period, and \$55 billion for working capital over that period. The \$80 billion that the Administration has indicated it would seek for loss funds for the period beginning in FY 92 had no specific ending date and represents an upper bound for currently estimated needs; it is unlikely at present that these funds would be spent much more quickly than the Mid-Session numbers reflect.

With regard to the potential \$25 billion in borrowing authority for BIF, the Mid-Session numbers incorporated the assumption that BIF would borrow the loss funds from the Federal Reserve instead of the Treasury; accordingly no impact on debt subject to limit was reflected for those BIF outlays (approximately \$11 billion) estimated to occur during the October 1991—January 1993 period. Furthermore, as you know, the funding arrangement has not been finalized.

As soon as the new budget is submitted in early 1992, the Administration will update its estimate of when the debt limit must be raised.

Sincerely,

MARY C. SOPHOS,
Assistant Secretary, Legislative Affairs.

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